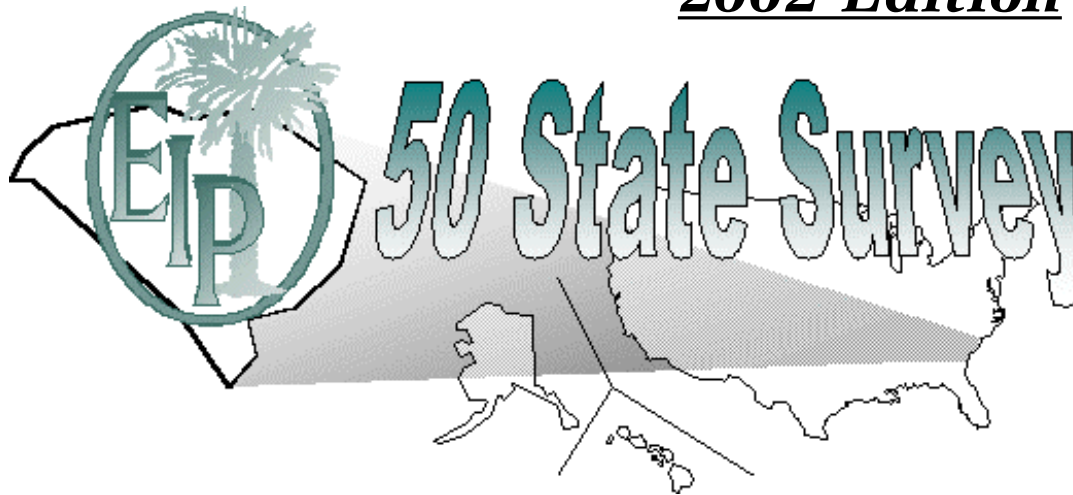


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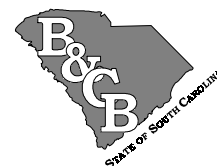


Employee Insurance Program
Research & Statistics Unit

- January 2002 Rates -

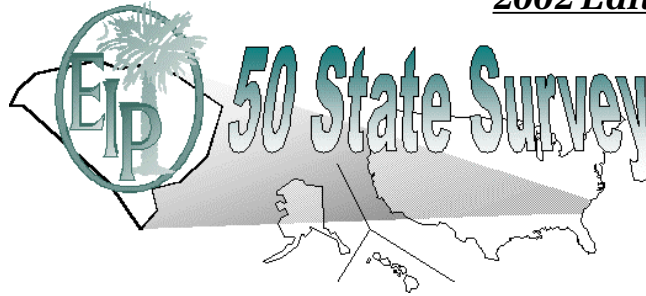
**A Composite Analysis of South Carolina's
State Health Plan Standard Option Rates to
State Plans Across The Nation**

From the Publishers
of: **TRENDS**



South Carolina Budget & Control Board
Employee Benefits Division

2002 Edition



Employee Insurance Program
Research & Statistics Unit

OVERVIEW

One of the key benefits an employer can offer a prospective employee is health insurance. For many, the attractiveness of health benefits is a determining factor in accepting or declining a job opportunity. Good health benefits are also important to employers. These benefits, when properly utilized, improve the overall health of the employer's workforce, which leads to improvements in the efficiency of their operations. Among the

other added benefits to employers, the attractiveness of their health benefits helps reduce unwanted turnover of top workers.

Full-time active employees in the majority of states have access to various health insurance options. Many states offer a variety of plan types such as HMOs, PPOs, indemnity health plans, etc. to their active employees. As with plan types, premiums can vary substantially from plan to plan and state to state. While a few states pay the total monthly premium for each employee's tier of coverage, most states allocate specified dollar amounts to contribute to each employee's monthly health premiums.

Regardless of how a state employee's health premiums are paid, rising health costs are driving premiums higher both in South Carolina and across the nation. To assess the impact of cost trends on plan premiums and compare South Carolina's State Health Plan Standard Option to other states, the South Carolina Budget and Control Board's Employee Insurance Program conducted its annual survey.

To conduct our analysis, information was gathered on each state's most populated non-HMO plan and/or the plan most similar to the State Health Plan's Standard Option. The following report presents the findings of our comparative analysis of each state's premium rates in effect on January 1, 2002.

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PLAN CHANGES IN 2002

Plan year 2002 brought many changes to the State Health Plan (SHP). Many of these changes were due to rising health care costs and increases in claims. Other changes were the result of legislative mandates and the Plan's effort to enhance the excellent benefits provided. We include plan changes in our discussion since they have an impact on plan premiums.

The following notes key changes to the State Health Plan for plan year 2002:



- For the second year in a row, premium costs increased for both employers and employees. The SHP monthly premium increased \$12 for employees regardless of their level of coverage. Premium increases for employers were significant and varied according to the employee's level of coverage.



- Mental Health Parity was instituted. As a result, the "inside limits" on mental health and substance abuse services will be eliminated.



- A \$100 deductible was added for each emergency room visit. This deductible will be waived upon admission to the hospital.



- A \$50 deductible was added for each outpatient hospital visit. This deductible will be waived for emergency room, oncology, and physical therapy visits.



- Co-payments for prescription drugs increased \$2 for both generic and brand name drugs. The generic drug co-pay is now \$7 while brand name drugs now have a co-pay of \$22. The SHP also implemented a "pay-the-difference" policy which means that if a generic drug is available, and the insured chooses to purchase a brand name medication instead, the Plan will limit the benefit to the cost of the generic drug leaving the insured responsible for the price difference.

- The annual out-of-pocket maximum per covered person for prescription drugs increased from \$1,000 to \$1,100.

- A voluntary mail service prescription drug program is now offered. Generic medication copayments are \$16 and brand name drug medication copayments are \$50 for up to a 90-day supply.



- SHP members now enjoy nationwide network coverage with the BlueCard program.

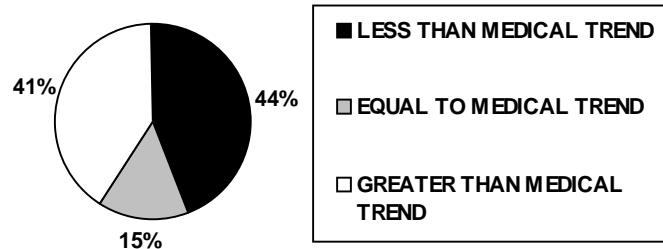
TALK AROUND THE NATION

South Carolina's State Health Plan is not alone when it comes to dealing with rising claims costs and premiums. Just take a look at what is being said in the health benefits industry around the nation:

More Costs Being Passed to Employees

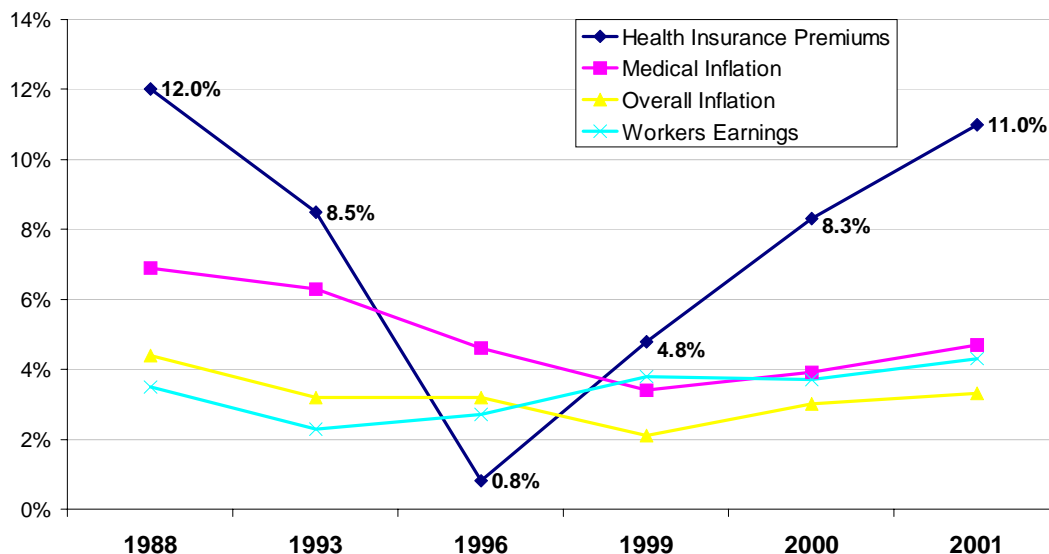
Taken From Watson Wyatt Worldwide Health Care Costs 2002 Survey

When employers were asked how contributions for active employee coverage for 2002 would change relative to the overall high medical cost trend, the majority (56 percent) reported that employee contributions would increase with the trend rate or greater than the trend rate – meaning some employees will take on a larger proportion of health care costs than they currently pay...



Increases in Health Insurance Premiums Compared to Other Indicators, 1988 - 2001

Source: Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2001



Outlook For The Future

Source: Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2001

Over the last few years, increases in employer-provided health coverage and decreases in the number of uninsured Americans suggest that employers may be willing to endure inflationary discomfort during a tight labor market, increasing coverage and shielding workers from premium increases. This year's survey does not show a significant reduction in the offering of health insurance or a dramatic shift towards increased employee cost sharing, but it does indicate that recent improvements in these measures have stalled. It remains to be seen how employer-provided health insurance will respond to the dual pressures of escalating premium increases and a lagging economy, though history suggests that change may be imminent.

METHODOLOGY

The tier structure of health plans varies from state to state. The State Health Plan (SHP) operates under a “four-tier” structure, which means that contributions vary according to four different levels of coverage: Employee Only (EO), Employee/Spouse (E/S), Employee/Children (E/C), and Full Family (FF). Many states use two-, three-, or four-tier premium structures. A two-tier structure is defined primarily as one entailing Employee Only and Employee / Dependent coverage levels. A three-tier structure entails Employee Only, Employee / Dependent, and Full Family coverage.

The tier structure has a significant impact on the contribution levels. In the case of a two-tier structure, the plan is typically spreading the cost of dependent coverage across all employees with dependents which results in employees covering only a spouse or dependents paying higher rates than an equivalently-priced plan with a four-tier structure.

To conduct a comparative analysis of plan rates from across the nation, a composite employer, employee, and total contribution rate was calculated for each state’s rates. The composite rates were calculated by using the percentage of SHP active employees with each coverage level in South Carolina, and applying those percentages to the rates for each state. The percentages for each coverage level, as of January 2002 are:

Employee Only (EO) – 52.625%
Employee / Spouse (E/S) – 11.463%
Employee / Children (E/C) – 20.257%
Full Family (FF) – 15.655%

In cases where states do not utilize a four-tier structure, the rate in which an employee would pay for the equivalent coverage under the four-tier structure was utilized in calculating the composite rates.

2002 Survey Sample

South Carolina Employee Insurance Program Survey of State Employee Health Insurance Programs



CONTACT INFORMATION

Agency/Organization: _____
Address: _____
City: _____ State: _____ Zip: _____
Contact Name/ Title: _____
Phone: _____
Department: _____

PLAN STRUCTURE & RATE INFORMATION

- What type of structure does your state use to categorize active employee subscribers into different premium groups (tiers)? (2-tier, 3-tier, or 4-tier)
For example: (subscriber only, subscriber/spouse, subscriber/child(ren), full family) = 4-tier
- What will your indemnity plan’s rates be as of January 1, 2002 for each of these different tier groups? If you do not have an indemnity plan, please use the plan with the most active subscribers enrolled and indicate the plan’s type below (i.e. PPO, POS, HMO).
- These rates are in effect from _____ to _____.

Tier (For example, subscriber only, full family, etc.)	Employee Contribution	Employer Contribution	Total Monthly

Thank you for participating in this survey. Please fax the completed survey to:
Patrick A. Harvin, Program Coordinator
EIP - Research & Statistics Unit
FAX: (803) 737-0557
PHONE: (803) 734-3577

If possible, please mail a copy of this plan’s benefits guide to:
Patrick A. Harvin, S.C. Employee Insurance Program, 1201 Main Street -Suite 300, Columbia SC 29201

SOUTH CAROLINA'S COMPOSITE FINDINGS

State Health Plan (SHP) active premiums remained favorable in comparison to most state health plans both in the South region and across the nation in 2002. Due to similar trend activity across the nation, the impact of premium growth on the plan's rankings among other states was minimal.

Premiums for the SHP increased for both employees and employers in 2002. Employees faced a \$12 monthly increase for each tier group while employer premium increases ranged from \$11.94 to \$54.16 monthly.

As is the case across the nation, premium growth is being fueled by growth in health claim costs. For example, the average annual growth in costs per subscriber to the SHP was about 10 percent from 1999 through 2001. In comparison, the average growth rate in the SHP's total premium composite was 13.5 percent during the same time period.

TOTAL COMPOSITE RATE

The State Health Plan (SHP) had a total composite premium of \$360.09 in 2002, up 13 percent from 2001 total composite of \$318.56. The 13 percent growth rate was indicative of the growth rates of both the South region (15.5 percent) and nation (11.7 percent).

In terms of total dollars, the SHP's total composite remained below the national and regional composites. The SHP's total composite was 78.2 percent of the national total composite. A total of 38 states have a higher total composite than South Carolina's.

The SHP's total composite is only 86 percent of the regional total composite. In 2001, the SHP's composite was almost 88 percent of the regional average. Of the 14 states in the South region, 11 of the

2002 South Carolina State Health Plan Premiums

	<u>Employer</u>	<u>Employee (Standard)</u>	<u>Total Rate</u>
Employee	\$206.70	\$ 31.72	\$238.42
Employee/Spouse	\$404.12	\$ 114.02	\$518.14
Employee/Child(ren)	\$312.60	\$ 68.74	\$381.34
Full Family	\$466.72	\$159.12	\$625.84
Composite Rate	\$291.49	\$ 68.60	\$360.09

remaining 13 states had a higher total composite than the SHP.

EMPLOYER COMPOSITE RATE

The SHP's employer composite premium rate was \$291.49 in 2002, a 10.9 percent climb from \$262.87 in 2001. The SHP employer composite's growth in 2002 was comparable to the 11.9 percent regional and 9.5 percent national employer composite growth rates. Historically, the SHP's employer composite rate has shown larger annual growth than the employee composite.

Looking at total dollars, the SHP's 2002 employer composite was only 79.5 percent of

See SOUTH CAROLINA on Page 7

How South Carolina Compares Ranks Nationally and Regionally in 2002

SHP Composite Total Rate

38 of 50 States Have Higher Rate
11 of 14 Regional States Have Higher Rate

SHP Composite Employer Contribution Rate

37 of 50 States Have Higher Rate
7 of 14 Regional States Have Higher Rate

SHP Composite Employee Contribution Rate

32 of 50 States Have Higher Rate
12 of 14 Regional States Have Higher Rate

South Carolina

Continued from Page 6

the national employer composite and 96 percent of the regional employer composite. A total of 37 of the 50 states had a higher employer composite rate than the SHP. Regionally, 7 of the 13 remaining states had a higher employer composite than the SHP.

EMPLOYEE COMPOSITE RATE

The employee composite for the SHP in 2002 was \$68.60, up 23.2 percent from 2001. The growth is the result of the \$12 across the board premium increase for employees effective January 1, 2002. In comparison, the South region's employee composite growth rate topped the SHP's employee growth with a 26.4 percent climb from 2001. The national employee composite grew 21.5 percent in 2002. These growth rates indicate that state active employees across the nation are beginning to pick up more of the cost of health premium increases.

In dollars, the SHP's 2002 employee composite was below both the national and re-

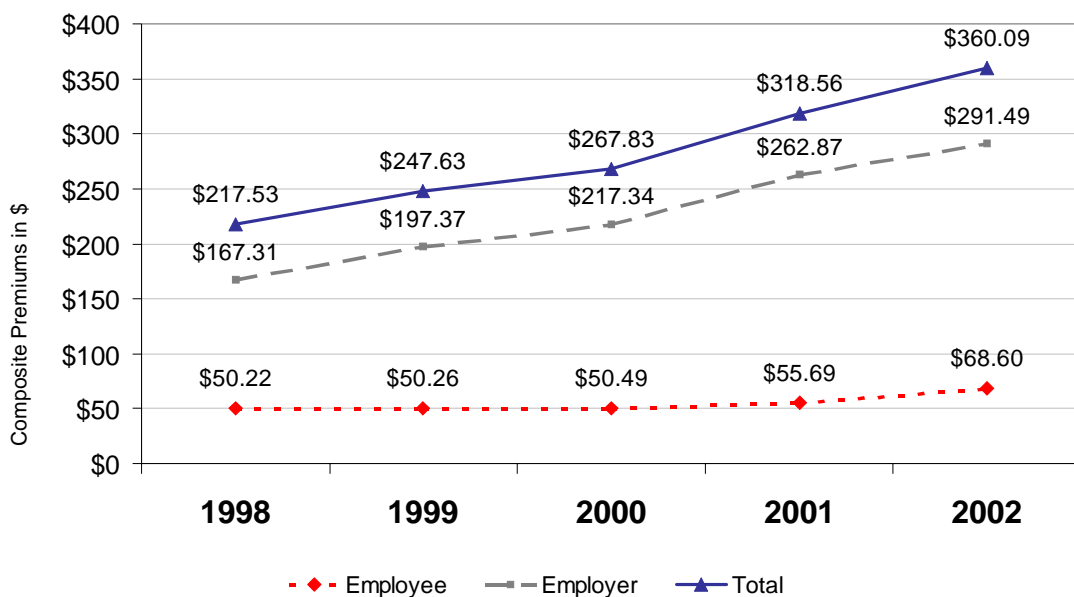
gional averages. The employee composite was only 59.9 percent of the regional average and 73.4 percent of the national employee composite. Only 1 other regional state had a lower employee composite than the SHP while 32 of the 50 states had higher employee composites than the SHP.

STATE HEALTH PLAN TRENDS

Composite growth in the SHP closely resembled that of both the regional and national trends in 2002. From 1998 to 2000, the SHP's total composite grew an average 11 percent annually. However, from 2000 to 2002, average annual total composite growth accelerated to 16 percent. Even with the additional cost savings measures and plan changes implemented over the past few years, health costs continue to rise both in South Carolina and around the nation, causing states to face tough decisions concerning their health benefit plans offered to active employees.

The data collected indicates that this issue is not only a South Carolina problem – it is a national problem.

South Carolina Premium Composite Rates: 1998 - 2002



REGIONAL COMPOSITE FINDINGS

Health premiums tend to vary by region of the nation. To examine regional trends, the United States was divided into 4 regions: South, Northeast, Midwest, and the West. In this analysis, we looked at regional composite trends across the nation.

SOUTH REGION

The South region is made up of the 14 states: Alabama, Arkansas, Florida, Georgia, Kentucky, Louisiana, Mississippi, North Carolina, Oklahoma, South Carolina, Tennessee, Texas, Virginia, And West Virginia. In 2002, the South's total composite rate of \$418.38 was the lowest of the four regions, as has been the case since 1999. The South's total composite growth of 15.5 percent from \$362.15 in 2001 was the largest regional growth observed in 2002. The 2002 total composite was

90.1 percent of the national total composite premium.

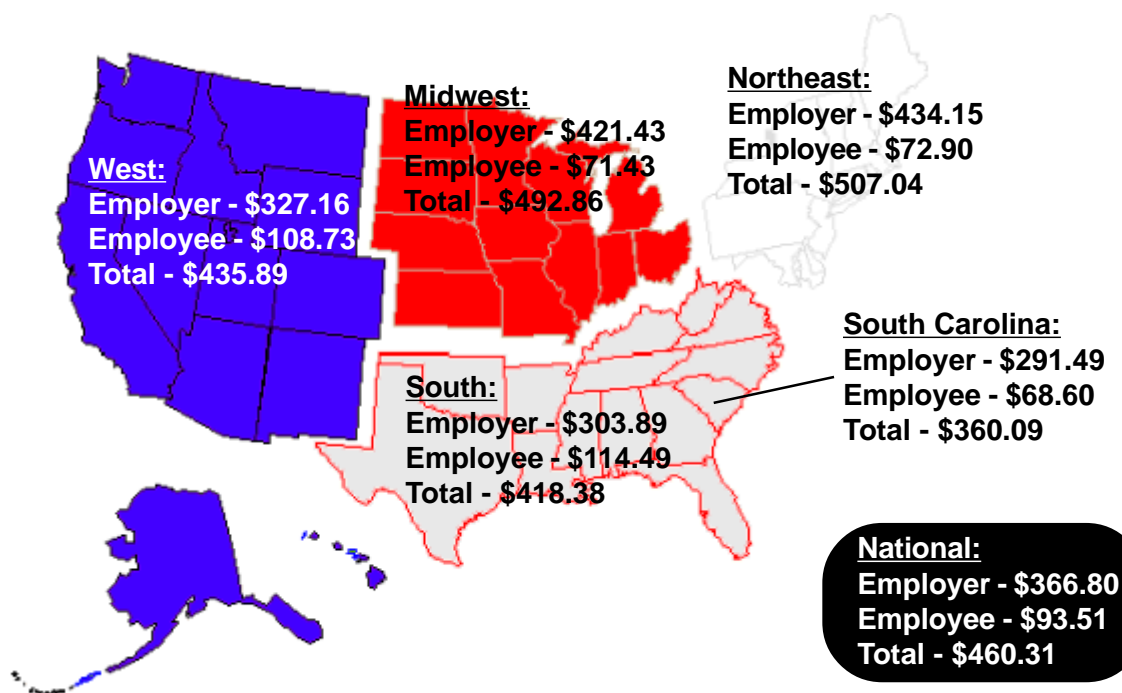
The employer composite for the South region, \$303.89 in 2002, was the lowest regional employer contribution composite. The South's employer composite was 82.8 percent of the national employer composite. In terms of growth rate, the employer composite for South region states grew 11.9 percent in 2002.

State active employees in the South region realized a significant increase in the region's employee composite premium. The employee composite of \$114.49 in 2002 was a 26.4 percent increase from 2001 and was 122 percent of the national employee composite rate.

The trend in the South region from 1998 to 2002 has been for state employees to assume a

See REGIONAL on Page 9

2002 State Employee Health Plan Composite Premiums for Indemnity Plans, by Regional Averages



Regional

Continued from Page 8

growing share of the total monthly health premiums. In 1998, state employees in the South region on average paid 26 percent of the total composite premium. By 2002, that percentage had grown to 27.4 percent. On average, state employees in the South pay a larger share of total health premiums than those in other regions.

NORTHEAST REGION

The Northeast region is composed of 11 states: Connecticut, Delaware, Maine, Maryland, Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania, Rhode Island, and Vermont. Over the past 5 years, the Northeast region has been the national leader in total composite premium rate. The region's total composite has consistently been higher than the national average. In 2002, the trend continued with a \$507.04 total composite premium rate, a 5.8 percent increase from 2001.

The region's employer composite is the primary cause of the higher total composite. In 2002, the Northeast's employer composite rate was \$434.15, up 5.1 percent from 2001. This growth rate was the smallest percentage growth seen regionally in 2002.

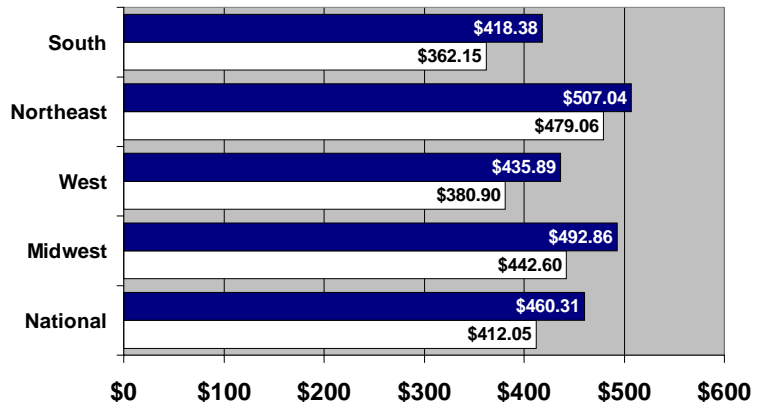
The Northeast's employee composite rate was \$72.90 in 2002, a 10.6 percent increase from 2001. The employee composite was 78 percent of the national employee composite rate. State employees in the Northeast region on average paid

See REGIONAL on Page 10

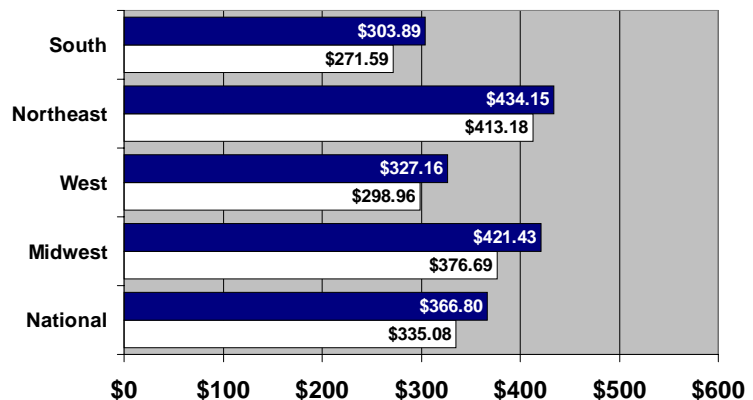
2002 & 2001 Regional Averages for State Employee Indemnity Plans

2001 Rates 2002 Rates

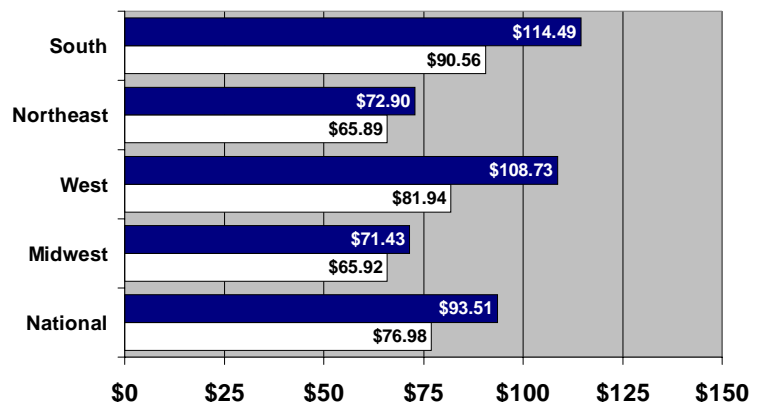
Total Composite Rates



Employer Composite Rates



Employee Composite Rates



Regional

Continued from Page 9

a smaller share of total health premiums than any other region. In 2002, the employee composite premium was only 14.4 percent of the region's total composite rate.

In all, the Northeast region continued to post the largest total and employer composite rates in the nation.

MIDWEST REGION

The Midwest region is comprised of 12 states: Illinois, Indiana, Iowa, Kansas, Michigan, Minnesota, Missouri, Nebraska, North Dakota, Ohio, South Dakota, and Wisconsin. The region's total composite was the second largest in the nation at \$492.86 in 2002, up 11.4 percent from 2001.

The employer composite rate for the Midwest of \$421.43 in 2002 was the result of a 11.9 percent increase from 2001. In comparison, the Midwest's employer composite growth rate tied the South's growth rate and was more than 2 percentage points higher than the national employer growth rate.

State employees in the Midwest saw the smallest growth rate in their employee composite premium in 2002. The 2002 employee composite grew 8.4 percent, well below the national average of 21.5 percent, to \$71.43. The Midwest's employee composite was also the lowest regional employee composite in the nation. It accounted for 76.4 percent of the national employee composite rate.

State employees in the Midwest on average paid a smaller share of total health premiums, only 14.5

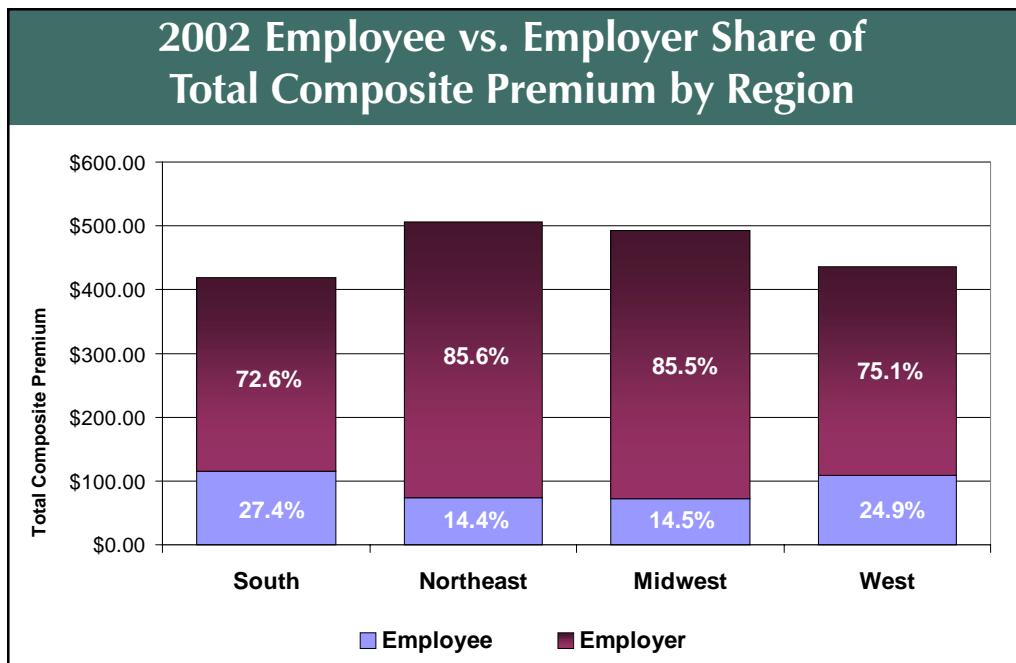
percent, than their colleagues in 2 of the 4 regions.

WEST REGION

The West region is made up of 13 states: Alaska, Arizona, California, Colorado, Hawaii, Idaho, Montana, Nevada, New Mexico, Oregon, Utah, Washington, and Wyoming. The region's total composite rate grew 14.4 percent in 2002 to \$435.89. The growth observed in the total composite rate was the second largest of the four national regions.

In terms of the employer composite rate for the West, it grew 9.4 percent to \$327.16 in 2002. States in the West were similar to the South region in that employers paid less of total health premiums than in both the Northeast and Midwest. Their average share has declined from 83.3 percent in 1998 to 75.1 percent in 2002. The trend shows that employers are passing a growing share of health premium increases to their employees.

As state above, state employees in the West are paying a larger share of total health premiums than in the past. In fact, the employee composite rate grew 32.7 percent in 2002 to \$108.73. The rate ranks second only to the South's \$114.49 employee composite in 2002 and is 116 percent of the national employee composite.



NATIONAL COMPOSITE FINDINGS

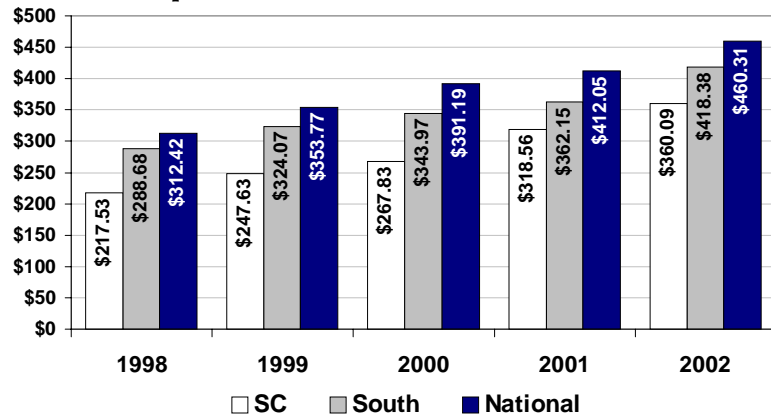
Nationally, premium growth rates were up in 2002, after slowing in 2001. For instance, in 2001, the national total composite was up 5.3 percent from 2000. However, the growth rate more than doubled to 11.7 percent in 2002. In 2002, the national total composite was \$460.31, up from \$412.05 in 2001. Since 1999, the national total composite has grown an average 10.2 percent annually.

The trend of the national total composite is indicative of both the national employee and employer composites. The national employer composite rate grew 9.5 percent in 2002 to \$366.80. Since 1999, the national employer premium has grown an average 9.3 percent annually.

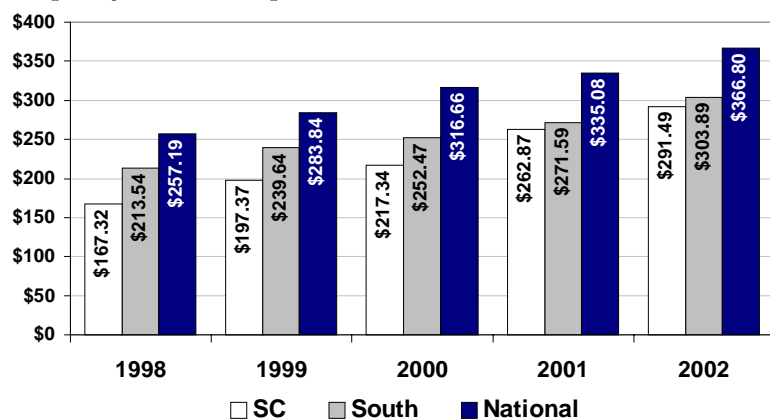
The year 2002 brought significant change to the national employee composite. The employee composite rate grew 21.5 percent to \$93.51. While health premiums are up across the nation, many states began to pass a growing share of premium increases to employees. In 1998, the national employee composite made up only 17.7 percent of the total composite. By 2002, the employee composite's share of the total composite was 20.3 percent.

Composite Rate Trends: 1998 to 2002

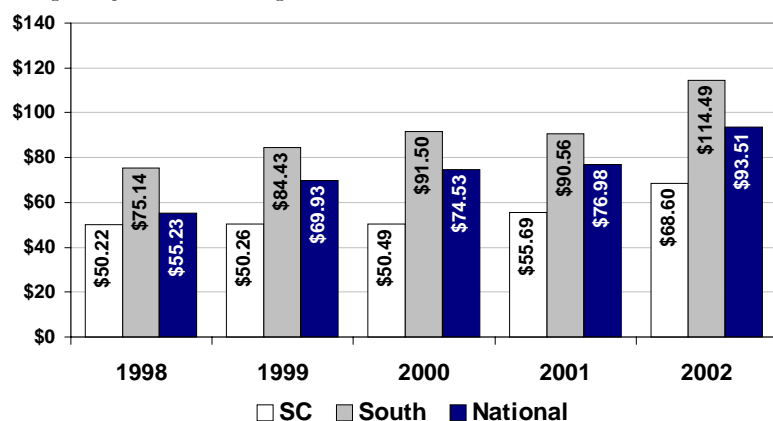
Total Composite Rates



Employer Composite Rates



Employee Composite Rates



ACKNOWLEDGEMENT

The Employee Insurance Program would like to personally thank each state's dedicated benefit program staff for their cooperation and participation in our survey. Because of your assistance, we again had 100 percent participation from the 50 states. Again, thanks for making this survey a success.



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